

**CITY OF PELLA, IOWA**

**INDEPENDENT AUDITOR'S REPORT  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS**

**June 30, 2010**



**City of Pella, Iowa**  
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**June 30, 2010**

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**City of Pella, Iowa**  
**City Officials**  
**Year Ending June 30, 2010**

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<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Before January, 2010</b>		
Darrell D. Dobernecker	Mayor	January, 2012
Mark De Jong	Council Member/ Mayor Pro Tem	January, 2010
Tony Bokhoven	Council Member	January, 2012
James Mueller	Council Member	January, 2012
Richard Savery	Council Member	January, 2012
Bruce Schiebout	Council Member	January, 2010
Dan Vander Beek	Council Member	January, 2010
Mike Nardini	City Administrator/Finance Director	Indefinite
Bob Stuyvesant	Attorney	January, 2010
Ronda Brown	City Clerk	January, 2010
<b>After January, 2010</b>		
Darrell D. Dobernecker	Mayor	January, 2012
Mark De Jong	Council Member/ Mayor Pro Tem	January, 2014
Tony Bokhoven	Council Member	January, 2012
James Mueller	Council Member	January, 2012
Richard Savery	Council Member	January, 2012
Bruce Schiebout	Council Member	January, 2014
Dan Vander Beek	Council Member	January, 2014
Mike Nardini	City Administrator/Finance Director	Indefinite
Bob Stuyvesant	Attorney	January, 2012
Ronda Brown	City Clerk	January, 2012

## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
City of Pella, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Pella, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Pella's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Pella at June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated January 7, 2011 on our consideration of the City of Pella's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 5-12 and 50-53 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Pella's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the eight years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Van Maanen, Sietstra & Meyer, PC*

Van Maanen, Sietstra & Meyer, PC  
Certified Public Accountants

January 7, 2011

## **CITY OF PELLA, IOWA**

### **MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2010**

The City of Pella provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

#### ***2010 FINANCIAL HIGHLIGHTS***

- The assets of the City of Pella exceeded its liabilities at the close of the fiscal year by \$91,972,849 (net assets).
- The assets of the City's governmental activities exceeded liabilities by \$36,440,974.
- Assets of business type activities exceeded liabilities by \$55,531,875.
- The revenues of the governmental activities exceeded expenses by \$1,776,474.
- Within the City's business-type activities, revenues exceeded expenses by \$41,616. The City policy is to set rates that fund operation expenses and debt service requirements of business-type activities. In addition, rates are established to fund capital improvements either through pay-as-you go financing or through debt issues.
- At June 30, 2010, the general fund had an unrestricted fund balance of \$2,181,651 or working capital of nearly 51% of annual expenditures.

#### ***OVERVIEW OF THE FINANCIAL STATEMENTS***

The City's basic financial statements consist of government-wide financial statements, fund financial statements, and notes to the financial statements. This discussion and analysis is intended to serve as an introduction to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

##### ***Government-wide financial statements***

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to private-sector business. The paragraphs below provide a brief description of the government-wide financial statements.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the changes occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods such as uncollected taxes and earned but unused vacation leave.

***The government-wide financial statements are divided into two categories:***

***Governmental activities*** - This category consists of services provided by the City that are principally supported by taxes and intergovernmental revenues. Basic City services such as police, fire, public works, planning, parks, the library, and general administration are governmental activities.

***Business type activities*** - These activities are supported primarily by user fees. The services provided by the City in this category, include water, sewer, sanitation services, and electrical utilities.

***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure compliance with legal requirements for financial transactions and reporting. All of the City's funds can be divided into two categories: governmental funds and proprietary funds.

***Governmental funds*** are used to account for essentially the same functions reported as governmental in the government-wide financial statements. However, unlike the government-wide financial statements, government fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balance of resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near term financial decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains four individual major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, special revenue TIF-Pella Business Corridor fund, debt service fund, and capital project fund, all of which are considered to be major funds. Data from the other nineteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general, debt service, capital projects, and special revenue funds. A budgetary comparison schedule has been provided for these funds to demonstrate compliance with this budget.

***Proprietary funds*** can be categorized into two groups, enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its electric, water, sewer, and environmental services utilities. Internal Service funds are accounting devices used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its health insurance program.

The financial statements of the proprietary funds provide the same type of information as the government-wide financial statements with greater detail.



**Notes to the financial statements** provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets as noted earlier, may serve as a useful indicator of a government's financial position when observed over time. In the case of the City, assets exceeded liabilities by \$91,972,849 at the close of the most recent fiscal year.

The most significant portion of the city's net assets (83.97%) are reflected in capital assets such as land, buildings, infrastructure, machinery, and equipment less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to the citizens and are not available for future spending.

### **CITY OF PELLA'S NET ASSETS**

	<b>Governmental Activities</b>		<b>Business Type Activities</b>		<b>Total</b>	
	<b>June 30,</b>		<b>June 30,</b>		<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Current and other assets	\$ 10,125,682	8,961,023	13,160,329	16,559,744	23,286,011	25,520,767
Capital assets	37,910,474	38,720,737	62,686,711	63,602,154	100,597,185	102,322,891
Total assets	48,036,156	47,681,760	75,847,040	80,161,898	123,883,196	127,843,658
Current Liabilities	6,371,796	7,025,245	3,707,777	4,763,140	10,079,573	11,788,385
Long-term liabilities	5,223,386	5,992,015	16,607,388	19,908,499	21,830,774	25,900,514
Total Liabilities	11,595,182	13,017,260	20,315,165	24,671,639	31,910,347	37,688,899
Net assets:						
Invested in capital assets, net of related debt	32,561,604	31,991,838	44,666,031	41,953,592	77,227,635	73,945,430
Restricted assets	1,652,260	966,588	2,820,632	4,363,689	4,472,892	5,330,277
Unrestricted assets	2,227,110	1,706,074	8,045,212	9,172,978	10,272,322	10,879,052
Total net assets	\$ 36,440,974	34,664,500	55,531,875	55,490,259	91,972,849	90,154,759

A portion of the City's net assets (4.86%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of net assets or the unrestricted net assets of \$10,272,322 may be used to meet the City's ongoing obligations to citizens and creditors.

### **Analysis of Changes in Net Assets**

	<b>Governmental Activities</b>		<b>Business Type Activities</b>		<b>Total</b>	
	<b>June 30,</b>		<b>June 30,</b>		<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Revenues</b>						
Charges for service	\$ 612,719	626,315	20,997,950	20,081,720	21,610,669	20,708,035
Operating grants, contributions	1,075,527	935,164	-	-	1,075,527	935,164
Capital grants, contributions	342,418	340,930	15,562	41,187	357,980	382,117
Property taxes	3,844,577	3,420,082	-	-	3,844,577	3,420,082
Local option taxes	1,044,700	1,180,851	-	-	1,044,700	1,180,851
TIF	944,634	1,616,632	-	-	944,634	1,616,632
Other Taxes	381,025	400,928	-	-	381,025	400,928
Grants & contributions	38,014	45,421	-	-	38,014	45,421
Payment in lieu of taxes	421,409	431,129	-	-	421,409	431,129
Investment earnings	27,539	77,396	156,964	331,396	184,503	408,792
Miscellaneous	1,500	4,425	210,583	106,594	212,083	111,019
Gain on sale of assets	16,435	122,764	(33,289)	19,085	(16,854)	141,849
Transfers	225,785	(30,277)	(225,785)	30,277	-	-
Total revenues	8,976,282	9,171,760	21,121,985	20,610,259	30,098,267	29,782,019
<b>Expenses</b>						
General government	679,603	659,759	-	-	679,603	659,759
Public Safety	1,789,017	1,628,535	-	-	1,789,017	1,628,535
Public Works	1,824,519	1,758,000	-	-	1,824,519	1,758,000
Culture & Recreation	2,061,992	2,185,179	-	-	2,061,992	2,185,179
Community & Economic Development	479,800	505,436	-	-	479,800	505,436
Facilities & Acquisition	108,733	419,333	-	-	108,733	419,333
Long-term debt and interest cost	256,144	284,622	-	-	256,144	284,622
Water	-	-	1,927,694	1,881,752	1,927,694	1,881,752
Wastewater	-	-	1,943,150	2,032,407	1,943,150	2,032,407
Sanitation	-	-	504,134	505,176	504,134	505,176
Electric	-	-	16,705,391	16,330,907	16,705,391	16,330,907
Total expenses	7,199,808	7,440,864	21,080,369	20,750,242	28,280,177	28,191,106
Change in net assets	\$ 1,776,474	1,730,896	41,616	(139,983)	1,818,090	1,590,913

### **FINANCIAL ANALYSIS OF THE FUND FINANCIAL STATEMENTS**

Governmental funds provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances serve as a useful measure of a government's net resources available at the end of the fiscal year.

The City's governmental funds reported a combined fund balance of \$4,001,117 at June 30, 2010. This was an increase of \$1,502,213 from the prior year and was due to prudent financial practices, collection of unobligated local option revenues and building of revenues in the Pella Business Corridor TIF Fund for future projects. A summary of each of the government major fund balances is as follows:

#### **General Fund**

The general fund's balance increased by \$383,709 in Fiscal Year 2010. As a result, our fund balance increased to \$2,181,651 which represents approximately 51% of annual expenditures.

### ***Debt Service Fund***

The debt service fund's balance of \$6,076 can be utilized to offset future general obligation principal and interest payments. During the year the fund balance increased by \$3.

### ***Special Revenue TIF-Pella Business Corridor Fund***

The Pella Business Corridor TIF Fund had a fund balance of \$429,567 at June 30, 2010. During the year the fund balance increased by \$243,125.

### ***Capital Projects Funds***

The capital project funds are comprised of one main fund and five smaller funds which are as follows:

***Capital Facilities Fund*** had a fund balance of \$161,130 at June 30, 2010. General Fund capital improvement projects are funded out of this fund. Annually the General Fund transfers amounts to cover expenditures made in the Capital Facilities Fund. However, the fund balance is also available to supplement any capital purchases made by the General Fund.

***Other Capital Facility Funds*** had a total fund balance of \$0 at June 30, 2010.

### ***Proprietary Funds***

The City's proprietary funds provide the same information found in the government-wide financial statements with greater detail.

The combined net assets of the enterprise funds at June 30, 2010 totaled \$55,531,875 of which \$8,045,212 is unrestricted. Overall, net assets for the enterprise funds increased by \$41,616.

The net assets of internal service funds, which is comprised of the City's health insurance trust fund increased from \$506,262 to \$546,372. The majority of the increase was due to lower than expected claims for the year.

## ***BUDGETARY HIGHLIGHTS***

The FY 10 budget was amended on April 20, 2010 for the following reasons:

- The FY 09-10 Budget contained estimated totals for the Electric Utility that were based on the FY 08-09 Budget. Estimated totals were used because a separate budget session is conducted for the utility after Council formally approves the City Budget for all other City funds. The separate session is needed so Council can provide more attention to the Electric Utility and it also gives staff additional time to form estimates, which enhances the reliability of the budget numbers. Therefore, this amendment is simply adjusting the FY 09-10 Budget to include the electric budget that was approved by Council on July 21, 2009. This request contains revenue decreases of \$1,729,957 and expenditure decreases of \$983,654.
- Expenditures were increased \$1,744,672 for the early retirement of debt.
- Expenditures were increased \$988,461 for the Elliot Turbine overhaul.
- Expenditures were increased \$11,191 for training and physicals for volunteer firefighters.
- Expenditures were increased \$29,500 for the water system analysis, phase 1.
- Expenditures were increased \$20,000 for the IDNR sewer bypass mandate.
- Expenditures were increased \$50,000 for the GE #6 turbine generator main steam stop valve repair.

- Expenditures were increased \$60,194 for miscellaneous small capital projects.
- The remaining \$412,522 in expenditure increases were due to small projects and items previously budgeted in the FY 08-09 budget whose expenses were not incurred until FY 09-10.

None of the above variations are expected to have a significant effect on future services or liquidity.

## ***CAPITAL ASSETS***

### ***Capital Assets***

Major construction projects and associated expenses for the year included the following:

#### ***Governmental Activities***

Purchase of a dump truck for the Airport \$115,183  
 Installation of the W 3<sup>rd</sup> & Washington traffic signals \$114,422  
 Engineering for the North Main St replacement \$57,422  
 FCC mandated radio communications upgrade with local, regional and state entities \$35,974

#### ***Water Fund***

Water System Analysis \$42,391  
 Collector Well Improvements \$25,725  
 Clean and repair shallow wells \$37,862  
 Install a 12" main on 240<sup>th</sup> St \$30,670  
 Engineering for the North Main St water main replacement \$21,222

#### ***Wastewater Fund***

IDNR bypass mandate improvement \$103,241

#### ***Electric Fund***

Turbine/Generator #5 Elliot repairs \$1,238,483  
 Conveyor chain replacement \$70,387  
 Bucket elevator repair \$235,860  
 Replace SCADA servers \$65,632  
 Capital improvements for ownership share of Walter Scott 4 (WS4) \$99,419

Additional information concerning the City's capital assets can be found in the notes to the financial statements.

## ***DEBT ADMINISTRATION***

At the close of fiscal year ended June 30, 2010, the City had bonds outstanding of \$23,598,000. The City maintains an Aa3 rating from Moody's Investor Services on all its general obligation debt and an A2 on electric revenue debt.

State statutes limit the amount of general obligation debt an Iowa city may issue to five percent of the actual assessed valuation at January 1, 2008. The current general obligation debt limitation for the City is \$34,295,748 and at June 30, 2010 there was \$5,510,000 of outstanding general obligation debt. Therefore the city's available debt margin is \$28,785,748 or 83.93%.

## ***ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES***

Due to the national economic recession, the City of Pella has seen consumption decreases for our major utilities over the past few years. These decreases, coupled with infrastructure needs and unfunded mandates from the Iowa Department of Natural Resources (IDNR), lead the City to adopt a new rate structure for the water and wastewater utilities in FY 09-10. These new rate structures recognize the significant maintenance and improvements necessary for both utilities and should allow stabilization of annual revenue streams in future years.

Likewise, the current economic recession has lead to stagnant taxable property valuations in the community. While we have not seen increases in property valuations, the City is fortunate not to have experienced decreases in its property tax base as many communities in Iowa have over the last few years. It is also important to note, the State of Iowa continues to experience financial problems as a result of the recession. It also seems likely that some of the State's budget problems will be passed along to local governments. These could include cuts to shared revenue streams such as road use taxes; library and recreation funding grants; and public safety grants. In addition, the City could also face unfunded mandates or forced property tax cuts. Regardless of which area is targeted, it is likely that the State's financial problems will impact the City of Pella's budget.

Listed below is a brief summary of the City's property and utility rates as established in the Fiscal Year 2011 Budget:

### ***Property Taxes***

The City was able to maintain its property tax rate in Fiscal Year 2010 at \$10.20/\$1,000 of taxable valuation. In addition, there will be no change in the rate for Fiscal Year 2011.

### ***Electric Rates***

The City has not raised electrical rates since 1996. However, future rate increases will likely be needed to fund the new clean air requirements passed down to electric utilities by the Environmental Protection Agency (EPA).

### ***Water Rates***

For Fiscal Year 2010, on March 1 water rates were increased 17% to 25% depending on the customer class. These increases were necessary to fund needed improvements in water-related infrastructure. Future rate increases may be needed if Council chooses to proceed with adding an additional source of water and treatment improvements for the utility.

### ***Wastewater Rates***

For Fiscal Year 2010, on March 1 wastewater rates were increased 12% to 21% depending on the customer class. These increases were necessary in order to fund mandates passed down from the Iowa Department of Natural Resources (IDNR). In the future, additional rate increases will be needed to complete these mandates.

### ***Requests for Information***

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or request for additional information should be directed to the City Administrator, 825 Broadway Street, Pella, Iowa 50219.

## **Financial Statements**

**City of Pella, Iowa**  
**Statement of Net Assets**  
**June 30, 2010**

	Primary Government		
	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 3,070,362	6,537,663	9,608,025
Receivables:			
Property tax:			
Delinquent	39,128	-	39,128
Succeeding year	3,723,460	-	3,723,460
Tax increment financing:			
Delinquent	12,810	-	12,810
Succeeding year	1,367,005	-	1,367,005
Local option sales tax	118,283	-	118,283
Accounts (net of allowance for uncollectibles)	19,419	2,536,593	2,556,012
Accrued interest	3,050	13,347	16,397
Due from other governments	98,480	-	98,480
Inventories	-	1,064,955	1,064,955
Deposits	3,000	-	3,000
Prepaid expenses	11,127	26,690	37,817
Restricted assets:			
Cash and pooled investments	1,652,260	2,820,632	4,472,892
Deferred charge (issuance costs)	7,298	160,449	167,747
Capital assets(net of accumulated depreciation)	37,910,474	62,686,711	100,597,185
<b>Total assets</b>	<b>48,036,156</b>	<b>75,847,040</b>	<b>123,883,196</b>
<b>Liabilities</b>			
Excess of warrants over bank balance	\$ 4,338	-	4,338
Accounts payable and accrued liabilities	241,980	1,475,039	1,717,019
Salaries and benefits payable	234,112	164,478	398,590
Deposits	-	107,949	107,949
Accrued interest payable	15,901	53,028	68,929
Deferred revenue:			
Succeeding year property tax	3,723,460	-	3,723,460
Succeeding year tax increment financing	1,367,005	-	1,367,005
Long-term liabilities:			
Portion due or payable within one year:			
General obligation bonds/notes	785,000	-	785,000
Revenue bonds payable	-	1,730,000	1,730,000
Compensated absences	-	177,283	177,283
Portion due or payable after one year:			
General obligation bonds	4,725,000	-	4,725,000
Revenue bonds payable (net of unamortized discounts)	-	16,290,680	16,290,680
Unamortized bond premium	64,497	17,451	81,948
Compensated absences	413,717	274,273	687,990
Net OPEB liability	20,172	24,984	45,156
<b>Total liabilities</b>	<b>11,595,182</b>	<b>20,315,165</b>	<b>31,910,347</b>



**City of Pella, Iowa**  
**Statement of Net Assets**  
**June 30, 2010**

*Continued from previous page.*

**Net Assets**

	Primary Government		
	Governmental Activities	Business Type Activities	Total
Invested in capital assets, net of related debt	32,561,604	44,666,031	77,227,635
Restricted for:			
Expendable:			
Debt service and improvements	-	2,704,842	2,704,842
Special Purposes	1,512,260	-	1,512,260
Other	-	115,790	115,790
Non-expendable:			
Permanent Trust	140,000	-	140,000
Unrestricted	2,227,110	8,045,212	10,272,322
<b>Total net assets</b>	<b>\$ 36,440,974</b>	<b>55,531,875</b>	<b>91,972,849</b>

See notes to financial statements.

**City of Pella, Iowa**  
**Statement of Activities**  
**Year ended June 30, 2010**

	Program Revenues			
	Expenses	Charges for Service	Operating Grants, Contributions & Restricted Interest	Capital Grants, Contributions & Restricted Interest
<b>Functions/Programs</b>				
Governmental activities:				
Public safety	\$ 1,789,017	72,144	99,729	-
Public works	1,824,519	51,577	921,076	5,848
Culture and recreation	2,061,992	419,152	53,622	-
Community and economic development	479,800	3,137	1,100	-
General government	679,603	66,709	-	-
Long-term debt costs and interest	256,144	-	-	-
Facilities and acquisition	108,733	-	-	336,570
Total governmental activities	7,199,808	612,719	1,075,527	342,418
Business type activities:				
Water	1,927,694	1,741,704	-	15,562
Wastewater	1,943,150	1,460,971	-	-
Sanitation	504,134	568,871	-	-
Electric	16,705,391	17,226,404	-	-
Total business type activities	21,080,369	20,997,950	-	15,562
Total primary government	\$ 28,280,177	21,610,669	1,075,527	357,980
General Revenues:				
Taxes:				
Property taxes				
Local option sales tax				
Tax increment financing				
Other taxes				
Grants and contributions not restricted to specific programs				
Payments in lieu of taxes				
Unrestricted investment earnings				
Miscellaneous				
Gain(loss) on sale/disposal of assets				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets beginning of year				
Net assets end of year				
See notes to financial statements.				

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(1,617,144)	-	(1,617,144)
(846,018)	-	(846,018)
(1,589,218)	-	(1,589,218)
(475,563)	-	(475,563)
(612,894)	-	(612,894)
(256,144)	-	(256,144)
227,837	-	227,837
(5,169,144)	-	(5,169,144)
-	(170,428)	(170,428)
-	(482,179)	(482,179)
-	64,737	64,737
-	521,013	521,013
-	(66,857)	(66,857)
(5,169,144)	(66,857)	(5,236,001)
3,844,577	-	3,844,577
1,044,700	-	1,044,700
944,634	-	944,634
381,025	-	381,025
38,014	-	38,014
421,409	-	421,409
27,539	156,964	184,503
1,500	210,583	212,083
16,435	(33,289)	(16,854)
225,785	(225,785)	-
6,945,618	108,473	7,054,091
1,776,474	41,616	1,818,090
34,664,500	55,490,259	90,154,759
\$ 36,440,974	55,531,875	91,972,849

## Exhibit C

**City of Pella, Iowa**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2010**

	Major Funds				Non-major	
	General	Sp. Rev. TIF-Pella Bus. Corr.	Debt Service	Capital Projects	Other Governmental Funds	Total
<b>Assets</b>						
Cash and pooled investments	\$ 2,437,200	418,174	511	136,949	1,170,818	4,163,652
Receivables:						
Property tax:						
Delinquent	29,225	-	5,565	-	4,338	39,128
Succeeding year	2,997,700	-	226,459	-	499,301	3,723,460
Tax increment financing:						
Delinquent	-	12,810	-	-	-	12,810
Succeeding year	-	1,367,005	-	-	-	1,367,005
Local option sales tax	-	-	-	-	118,283	118,283
Accounts receivable, miscellaneous	11,817	-	-	3,510	4,092	19,419
Accrued interest	1,567	-	-	269	424	2,260
Due from other governments	36,475	-	-	62,005	-	98,480
Deposit	3,000	-	-	-	-	3,000
Prepaid expenditures	515	-	-	-	-	515
<b>Total assets</b>	<b>\$ 5,517,499</b>	<b>1,797,989</b>	<b>232,535</b>	<b>202,733</b>	<b>1,797,256</b>	<b>9,548,012</b>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Excess of warrants over bank balance	\$ -	-	-	-	4,338	4,338
Accounts payable and accrued liabilities	126,842	1,417	-	41,603	48,117	217,979
Salaries and benefits payable	211,306	-	-	-	22,807	234,113
Deferred revenue:						
Succeeding year property tax	2,997,700	-	226,459	-	499,301	3,723,460
Succeeding year tax increment financing	-	1,367,005	-	-	-	1,367,005
<b>Total liabilities</b>	<b>3,335,848</b>	<b>1,368,422</b>	<b>226,459</b>	<b>41,603</b>	<b>574,563</b>	<b>5,546,895</b>
Fund balances:						
Reserved for:						
Debt Service	-	-	6,076	-	-	6,076
Permanent Trust	-	-	-	-	140,000	140,000
Unreserved:						
Undesignated:						
Reported in:						
General Fund	2,181,651	-	-	-	-	2,181,651
Special Revenue fund	-	429,567	-	-	1,082,693	1,512,260
Capital Projects fund	-	-	-	161,130	-	161,130
<b>Total fund balances</b>	<b>2,181,651</b>	<b>429,567</b>	<b>6,076</b>	<b>161,130</b>	<b>1,222,693</b>	<b>4,001,117</b>
<b>Total liabilities and fund balances</b>	<b>\$ 5,517,499</b>	<b>1,797,989</b>	<b>232,535</b>	<b>202,733</b>	<b>1,797,256</b>	<b>9,548,012</b>

See notes to financial statements.

Exhibit D

**City of Pella, Iowa**  
**Reconciliation of the Balance Sheet**  
**Governmental Funds to the Statement of Net Assets**  
**June 30, 2010**

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**Total fund balances of governmental funds (Exhibit C)** \$ 4,001,117

***Amounts reported for governmental activities in the statement of net assets are different because:***

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$54,598,200 and the accumulated depreciation is \$16,687,726. 37,910,474

An internal service fund is used by management to track the collection and payment of various employee benefits. The assets and liabilities of the internal service fund are included in the statement of net assets. 546,372

Long-term liabilities, including bonds/notes payable, bond discounts or premiums (initial and amortized), bond issuance costs (initial and amortized), compensated absences payable, other postemployment benefits payable, and accrued interest payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. (6,016,989)

**Net assets of governmental activities (Exhibit A)** \$ 36,440,974

See notes to financial statements.

## Exhibit E

**City of Pella, Iowa**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**Year ended June 30, 2010**

	Major Funds				Non-major	
	General	Sp. Rev. TIF-Pella Bus. Corr.	Debt Service	Capital Projects	Other Governmental Funds	Totals
Revenues:						
Property tax	\$ 2,885,120	-	532,396	-	427,061	3,844,577
Tax increment financing	-	944,634	-	-	-	944,634
Local option sales tax	-	-	-	-	806,475	806,475
Other city taxes	376,118	-	2,617	-	2,290	381,025
Licenses and permits	41,960	-	-	-	-	41,960
Use of money and property	56,472	822	113	837	7,543	65,787
Intergovernmental	537,310	-	-	335,733	1,190,991	2,064,034
Charges for services	457,915	-	-	-	2,262	460,177
Miscellaneous	81,370	-	-	1,365	42,659	125,394
Total revenues	4,436,265	945,456	535,126	337,935	2,479,281	8,734,063
Expenditures:						
Operating:						
Public safety	1,546,408	-	-	-	4,714	1,551,122
Public works	313,802	-	-	-	808,608	1,122,410
Culture and recreation	1,619,871	-	-	-	67,702	1,687,573
Community and economic development	337,187	142,054	-	-	-	479,241
General government	468,360	-	-	-	-	468,360
Debt service	-	-	3,719,956	-	-	3,719,956
Capital projects	-	-	-	631,463	-	631,463
Total expenditures	4,285,628	142,054	3,719,956	631,463	881,024	9,660,125
Excess (deficiency) of revenues over (under) expenditures	150,637	803,402	(3,184,830)	(293,528)	1,598,257	(926,062)
Other financing sources (uses):						
Operating transfers in	489,786	-	998,777	343,557	104,640	1,936,760
Operating transfers (out)	(271,000)	(560,277)	-	-	(879,698)	(1,710,975)
General obligation bonds issued	-	-	2,115,000	-	-	2,115,000
General obligation bond premium	-	-	71,056	-	-	71,056
Proceeds from sale of assets	14,286	-	-	-	2,148	16,434
Total other financing sources (uses)	233,072	(560,277)	3,184,833	343,557	(772,910)	2,428,275
Net change in fund balances	383,709	243,125	3	50,029	825,347	1,502,213
Fund balances beginning of year	1,797,942	186,442	6,073	111,101	397,346	2,498,904
Fund balances end of year	\$ 2,181,651	429,567	6,076	161,130	1,222,693	4,001,117

See notes to financial statements.

**City of Pella, Iowa**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds to the Statement of Activities**  
**Year ended June 30, 2010**

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**Net change in fund balances - Total governmental funds (Exhibit E)** **\$ 1,502,213**

***Amounts reported for governmental activities in the Statement of Activities are different because:***

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures and depreciation expense in the current year are as follows:

Expenditures for capital assets	\$ 522,730	
Depreciation expense	<u>(1,332,993)</u>	(810,263)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. Also governmental funds report the effect of bond issuance costs and premiums, whereas these amounts are deferred and amortized in the Statement of Activities.

Current year items are as follows:

Proceeds from general obligation bonds	(2,115,000)	
Premium on general obligation bonds	(71,056)	
Principal payments of general obligation bonds	3,445,000	
Bond issuance costs	8,040	
Amortization of bond premiums	6,559	
Amortization of bond issuance costs	<u>(742)</u>	1,272,801

An internal service fund is used by management to track collections of medical and dental insurance premiums and Section 125 deductions from the employer and employee as well as disbursements for health and dental insurance premiums and claims, Section 125 claims, and other employee benefits.

Interest revenue from governmental internal service fund	4,243	
Employer funds for benefits shifted from other funds	825,539	
Employee benefits collected through withholding	199,076	
Claims and premiums paid out	<u>(988,748)</u>	40,110

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Compensated absences	(223,716)	
Other postemployment benefits	(9,626)	
Interest on long-term debt	<u>4,955</u>	(228,387)

**Change in net assets of governmental activities (Exhibit B)** **\$ 1,776,474**

See notes to financial statements.

## Exhibit G

**City of Pella, Iowa**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2010**

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal Service Funds
	Water	Wastewater	Electric	Sanitation	Totals	
<b>Assets</b>						
Current assets:						
Cash and pooled investments	\$ 1,311,703	527,457	4,672,075	26,428	6,537,663	558,970
Receivables:						
Accrued interest	2,457	1,228	9,621	41	13,347	790
Trade (net of allowance for uncollectible)	165,986	149,220	2,171,538	49,849	2,536,593	-
Inventories	134,030	115,642	815,283	-	1,064,955	-
Prepaid expenses	-	-	26,690	-	26,690	10,612
Restricted assets:						
Cash and pooled investments	254,000	368,342	2,190,449	7,841	2,820,632	-
Total current assets	1,868,176	1,161,889	9,885,656	84,159	12,999,880	570,372
Non-current assets:						
Deferred charge (issuance costs)	16,038	32,570	111,841	-	160,449	-
Capital assets:						
Land, wastewater rights and infrastructure	118,360	907,049	550,724	-	1,576,133	-
Depreciable buildings, property, equipment and infrastructure, net	7,386,253	9,874,041	43,850,284	-	61,110,578	-
Total non-current assets	7,520,651	10,813,660	44,512,849	-	62,847,160	-
<b>Total assets</b>	<b>\$ 9,388,827</b>	<b>11,975,549</b>	<b>54,398,505</b>	<b>84,159</b>	<b>75,847,040</b>	<b>570,372</b>
<b>Liabilities</b>						
Current liabilities:						
Accounts payable and accrued liabilities	\$ 110,490	54,774	1,270,822	38,953	1,475,039	24,000
Salaries and benefits payable	30,311	20,760	111,749	1,658	164,478	-
Deposits	-	-	107,949	-	107,949	-
Accrued interest payable	5,109	9,492	38,427	-	53,028	-
Compensated absences payable	37,379	26,664	111,383	1,857	177,283	-
Long-term debt - due within one year:						
Revenue bonds payable	320,000	235,000	1,175,000	-	1,730,000	-
Total current liabilities	503,289	346,690	2,815,330	42,468	3,707,777	24,000
Long-term liabilities (net of current portion):						
Compensated absences payable	71,316	45,127	157,830	-	274,273	-
Net OPEB liability	4,520	3,788	16,494	182	24,984	-
Revenue bonds payable (net of unamortized discount)	1,339,107	2,958,000	11,993,573	-	16,290,680	-
Unamortized bond premium	-	-	17,451	-	17,451	-
Total long-term liabilities	1,414,943	3,006,915	12,185,348	182	16,607,388	-
<b>Total liabilities</b>	<b>1,918,232</b>	<b>3,353,605</b>	<b>15,000,678</b>	<b>42,650</b>	<b>20,315,165</b>	<b>24,000</b>
<b>Net Assets</b>						
Invested in capital assets, net of related debt	5,845,506	7,588,090	31,232,435	-	44,666,031	-
Restricted for:						
Expendable:						
Revenue note retirement	254,000	368,342	1,582,500	-	2,204,842	-
Electric improvement	-	-	500,000	-	500,000	-
Other	-	-	107,949	7,841	115,790	-
Unrestricted	1,371,089	665,512	5,974,943	33,668	8,045,212	546,372
<b>Total net assets</b>	<b>\$ 7,470,595</b>	<b>8,621,944</b>	<b>39,397,827</b>	<b>41,509</b>	<b>55,531,875</b>	<b>546,372</b>

See notes to financial statements



**City of Pella, Iowa**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**June 30, 2010**

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal Service Funds
	Water	Wastewater	Electric	Sanitation	Totals	
Operating revenues:						
Charges for service (pledged for revenue notes)	\$ 1,741,704	1,460,971	17,226,404	568,871	20,997,950	-
Special assessments	-	39,018			39,018	-
Miscellaneous	34,332	24,396	71,686	-	130,414	-
Internal service charges	-	-	-	-	-	1,024,615
Total operating revenues	1,776,036	1,524,385	17,298,090	568,871	21,167,382	1,024,615
Operating expenses:						
Business type activities:						
Personnel services	719,261	488,206	2,534,889	38,229	3,780,585	-
Contractual	54,000	22,977	-	440,865	517,842	769,085
Franchise fees	43,530	29,285	-	-	72,815	-
Materials and Supplies	445,198	435,587	7,293,174	25,040	8,198,999	-
Purchased power	-	-	4,181,184	-	4,181,184	-
Payments in lieu of taxes	-	-	421,409	-	421,409	-
Payments in lieu of services	-	-	78,097	-	78,097	-
Depreciation	556,148	824,590	1,572,511	-	2,953,249	-
Claims expense	-	-	-	-	-	219,663
Total operating expenses	1,818,137	1,800,645	16,081,264	504,134	20,204,180	988,748
Operating income (loss)	(42,101)	(276,260)	1,216,826	64,737	963,202	35,867
Non-operating revenues (expenses):						
Debt costs and interest	(109,557)	(142,505)	(624,127)	-	(876,189)	-
Interest income	15,600	7,016	134,096	252	156,964	4,243
Rents	19,800	14,206	-	-	34,006	-
Sale/disposal of fixed assets	1,353	815	(35,457)	-	(33,289)	-
Miscellaneous revenues	-	-	-	7,145	7,145	-
Net non-operating revenues (expenses)	(72,804)	(120,468)	(525,488)	7,397	(711,363)	4,243
Income (loss) before operating transfers	(114,905)	(396,728)	691,338	72,134	251,839	40,110
Capital contributions-assets	15,562	-	-	-	15,562	-
Transfers (out)	(3,503)	(164,031)	(3,504)	(54,747)	(225,785)	-
Net other financing sources (uses)	12,059	(164,031)	(3,504)	(54,747)	(210,223)	-
Change in net assets	(102,846)	(560,759)	687,834	17,387	41,616	40,110
Net assets beginning of year	7,573,441	9,182,703	38,709,993	24,122	55,490,259	506,262
Net assets end of year	\$ 7,470,595	8,621,944	39,397,827	41,509	55,531,875	546,372

See notes to financial statements.

## Exhibit I

**City of Pella, Iowa**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Year ended June 30, 2010**

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal Service Funds
	Water	Wastewater	Electric	Sanitation	Total	
Cash flows from operating activities:						
Cash received from customers and users	\$ 1,745,937	1,488,635	17,315,610	563,754	21,113,936	-
Cash received from internal service charges	-	-	-	-	-	1,024,615
Cash paid for personal services	(705,331)	(480,896)	(2,500,963)	(38,616)	(3,725,806)	-
Cash paid to suppliers	(547,920)	(528,690)	(12,356,263)	(480,159)	(13,913,032)	(1,099,927)
Replacement tax, transfers	-	-	(421,409)	-	(421,409)	-
Net cash provided (used) by operating activities	492,686	479,049	2,036,975	44,979	3,053,689	(75,312)
Cash flows from non-capital financing activities:						
Miscellaneous receipts	19,800	14,206	-	7,145	41,151	-
Transfers (out)	(3,503)	(164,031)	(3,504)	(54,747)	(225,785)	-
Net cash provided (used) by non-capital financing activities	16,297	(149,825)	(3,504)	(47,602)	(184,634)	-
Cash flows from capital and related financing activities:						
Acquisition and construction of capital assets	(213,082)	(113,991)	(1,756,398)	-	(2,083,471)	-
Principal paid on revenue notes (as scheduled)	(420,000)	(226,000)	(1,345,000)	-	(1,991,000)	-
Principal paid on revenue notes (in advance)	(490,000)	-	(4,005,000)	-	(4,495,000)	-
Proceeds from revenue bonds issued	-	-	2,825,000	-	2,825,000	-
Interest costs (not capitalized)	(86,878)	(139,687)	(569,601)	-	(796,166)	-
Other long-term debt costs	(3,515)	440	(44,005)	-	(47,080)	-
Due from other funds	66,468	-	-	-	66,468	-
Proceeds from sale of capital assets	1,691	815	9,870	-	12,376	-
Net cash used by capital and related financing activities	(1,145,316)	(478,423)	(4,885,134)	-	(6,508,873)	-
Cash flows from investing activities:						
Proceeds from investments	340,138	107,003	1,895,017	1,228	2,343,386	23,691
Interest on investments	3,773	1,252	79,214	84	84,323	1,002
Net cash provided by investing activities	343,911	108,255	1,974,231	1,312	2,427,709	24,693
Net (decrease) in cash and cash equivalents	(292,422)	(40,944)	(877,432)	(1,311)	(1,212,109)	(50,619)
Cash and cash equivalents at beginning of year	765,878	353,565	3,172,034	16,127	4,307,604	234,387
Cash and cash equivalents at end of year	\$ 473,456	312,621	2,294,602	14,816	3,095,495	183,768

City of Pella, Iowa  
Statement of Cash Flows  
Proprietary Funds  
Year ended June 30, 2010

	Business Type Activities					Governmental Activities
	Enterprise Funds					Internal Service Funds
	Water	Wastewater	Electric	Sanitation	Total	
<i>Continued from previous page</i>						
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>						
Operating income (loss)	\$ (42,101)	(276,260)	1,216,826	64,737	963,202	35,867
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation	556,148	824,590	1,572,511	-	2,953,249	-
Change in assets and liabilities:						
(Increase) decrease in receivables	(30,099)	(35,750)	8,169	(5,117)	(62,797)	-
(Increase) in inventory	(20,722)	(18,218)	(57,648)	-	(96,588)	-
Decrease in due from other govts	515	-	-	-	515	-
(Increase) decrease in prepaid expense	-	-	23,810	-	23,810	(10,612)
Increase (decrease) in accounts payable	15,015	(22,623)	(769,970)	(14,254)	(791,832)	(100,567)
Increase in accrued expenses	2,975	1,659	10,333	143	15,110	-
Increase (decrease) in compensated absences	8,706	3,747	15,260	(533)	27,180	-
Increase in deposits held			9,351		9,351	-
Increase in other postemployment benefits	2,249	1,904	8,333	3	12,489	-
Total adjustments	534,787	755,309	820,149	(19,758)	2,090,487	(111,179)
Net cash provided (used) by operating activities	\$ 492,686	479,049	2,036,975	44,979	3,053,689	(75,312)
<b>Reconciliation of cash and cash equivalents at year end to specific assets included on the Statement of Net Assets:</b>						
Current assets:						
Cash and pooled investments	\$ 1,311,703	527,457	4,672,075	26,428	6,537,663	558,970
Restricted assets:						
Cash and pooled investments:						
Water bond reserve	254,000	-	-	-	254,000	-
Wastewater bond reserve	-	368,342	-	-	368,342	-
Electric bond reserve	-	-	1,582,500	-	1,582,500	-
Electric improvement reserve	-	-	500,000	-	500,000	-
Customer deposits	-	-	107,949	-	107,949	-
Sanitation totes	-	-	-	7,841	7,841	-
	254,000	368,342	2,190,449	7,841	2,820,632	-
Total cash and pooled investments	1,565,703	895,799	6,862,524	34,269	9,358,295	558,970
Less items not meeting definition of cash equivalent:						
Certificates of deposit	(1,057,624)	(564,692)	(4,423,123)	(18,836)	(6,064,275)	(363,308)
Iowa Public Agency Investment Trust	(34,623)	(18,486)	(144,799)	(617)	(198,525)	(11,894)
	(1,092,247)	(583,178)	(4,567,922)	(19,453)	(6,262,800)	(375,202)
Cash and cash equivalents at year end	\$ 473,456	312,621	2,294,602	14,816	3,095,495	183,768

## Exhibit I

City of Pella, Iowa  
Statement of Cash Flows  
Proprietary Funds  
Year ended June 30, 2010

	Business Type Activities					Governmental
	Enterprise Funds					Activities
	Water	Wastewater	Electric	Sanitation	Total	Internal Service Funds
<i>Continued from previous page</i>						
<b>Non-cash investing, capital and financing activities:</b>						
Current issuance cost expense, prior cash outlay	\$ 19,164	3,258	28,563	-	50,985	-
Current discount amortization, prior cash receipt	(5,145)	-	(40,178)	-	(45,323)	-
Current premium amortization, prior cash outlay	-		2,228	-	2,228	-
Net removal costs of assets sold or disposed, ( cost-accumulated depreciation)	(338)	-	(45,327)	-	(45,665)	-
Contributions of capital assets from developer/ government	15,562	-	-	-	15,562	-
Acquisition of capital assets through developer/ government contribution	(15,562)	-	-	-	(15,562)	-

See notes to financial statements.

(1) **Summary of Significant Accounting Policies**

The City of Pella, Iowa is a political subdivision of the State of Iowa located in Marion County. It was incorporated in 1868 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general government services. It also provides water, sewer, electrical and sanitation utilities.

The financial statements of the City of Pella, Iowa, are prepared in conformity with U.S. generally accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the City of Pella has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Pella has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the primary government. Neither fiduciary funds nor component units that are fiduciary in nature are included. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the City's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

(1) **Summary of Significant Accounting Policies (continued from previous page)**

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Pella Business Corridor Tax Increment Financing Fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

The Debt Service Fund is used to account for the payment of interest and principal on the City's general obligation long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the City's water system.

The Wastewater Fund is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Sanitation Fund is used to account for the operation and maintenance of the City's solid waste collection system.

The Electric Fund is used to account for the operation and maintenance of the City's electricity production, procurement and transmission system.

In addition, the City reports the following fund types:

The Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

These non-major governmental funds are grouped for financial statement reporting purposes:

Special Revenue:

The High Point Tax Increment Financing fund is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

The Road Use Tax fund is used to account for road construction and maintenance.

The Local Option Sales Tax fund is used to account for the revenues from the tax authorized by referendum and used for aquatic center, debt relief, capital improvements, equipment and community programs and services.

The Employee Benefits fund is used to account for property tax levied to finance the payment of employee benefits.

(1) **Summary of Significant Accounting Policies (continued from previous page)**

The Pella Clothing Bank, Police Reserve, Community Development Trust, Carnegie-Viersen Library Gift/Memorial, Pella Community Center Trust, Pella Community Center Van Trust, Art Center Trust, Airport Trust, Police Asset Forfeiture, Soccer Complex, Community Service Scholarship Trust, Parks Development, and Carnegie-Viersen-Van Gorp Trust funds receive proceeds from specific revenue sources that are legally restricted to expenditures for specific purposes.

The Permanent funds resources are restricted to the extent that only earnings and not principal may be used for purposes that support the reporting government's programs. That is, for the benefit of the government or its citizenry.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

The proprietary funds of the City apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City maintains its financial records on the modified accrual basis. The financial statements of the City are prepared by making memorandum adjusting entries to the modified accrual basis financial records.

(1) **Summary of Significant Accounting Policies (continued from previous page)**

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most City funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost. Interest earned on investments is recorded in the General Fund unless otherwise provided by law.

For purposes of the statement of cash flow, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Trade receivables – Trade receivables are recorded in the enterprise funds at the time the service is billed. Trade receivables for the enterprise funds are listed net of an allowance for uncollectible accounts. The allowance for uncollectible accounts is calculated each year. See note 3.

Inventories - Inventories are valued at cost using the first-in/first-out method. Inventories in the Enterprise Funds consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Property Taxes Receivable, Including Tax Increment Financing - Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting. Property taxes receivable represent taxes received by or expected to be received within 60 days after year end.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represents taxes collected by the County but not remitted to the City at June 30, 2010 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2009.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Restricted Assets - Funds set aside for payment of Enterprise Fund revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include special purpose funds and customer deposits restricted for application to unpaid customer accounts or for refund to customers.



(1) **Summary of Significant Accounting Policies (continued from previous page)**

Capital Assets - Capital assets, which include property, equipment, vehicles and infrastructure assets acquired after July 1, 1980 (e.g. roads, curbs, gutters, sidewalks and similar items which are immovable and of value only to the City) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets and in the Proprietary Funds Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the City as assets with an initial, individual cost in excess of \$5,000, or lower if they want to specifically track and identify the asset such as computer purchases, and estimated useful lives in excess of two years.

Capital assets depreciated using the straight line method of depreciation over the following estimated useful lives in years, are as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Roads	20-50
Wastewater, Water and Electrical Systems	25-75
Buildings	40
Improvements	25-35
Furniture, fixtures, and equipment	5-35
Vehicles	5-7

Capitalized Interest - Interest costs are capitalized when incurred by proprietary funds on debt where proceeds were used to finance the construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. Capital improvements made in the water, sewer and electric funds were financed with existing revenues, no interest on debt was incurred or capitalized.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of delinquent property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied.

Compensated Absences - Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

All vested vacation leave is in current compensated absences. In accordance with the provisions of Governmental Accounting Standards Board Statement 16, "Accounting for Compensated Absences," no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement. One year sick pay allocation is included in current compensated absences. Sick pay which has built up in an employees account, but is not expected to be paid in the current year is in long-term compensated absences. Liabilities have been computed based on rates of pay as of June 30, 2010.

(1) **Summary of Significant Accounting Policies (continued from previous page)**

Long-term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Assets and the proprietary fund Statement of Net Assets.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Use of Restricted/Unrestricted Net Assets - When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

Fund Equity – In the governmental fund financial statements, reservations of fund balances are reported for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amount budgeted in the debt service function.

(2) **Cash and Pooled Investments**

The City's deposits at June 30, 2010 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments at June 30, 2010 are as follows:

Certificates of deposit	\$ 7,577,489
Iowa Public Agency Investment Trust	246,849
Government Bonds	14,523
Total	<u>\$ 7,838,861</u>

The investments in the Iowa Public Agency Investment Trust are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investment in the Iowa Public Agency Investment Trust is rated Aaa by Moody's Investors Service. The investments in Government Bonds are primarily invested in U.S. Treasury securities.

(3) **Trade Accounts Receivable and Allowance for Uncollectibles**

Utility revenue is recorded when earned. Customers are billed monthly. The City Municipal Water, Wastewater, Sanitation, and Electric Utility's trade accounts receivable is based on actual customer billings. If a customer defaults on their bill, current policy does not remove their balance or details from accounts receivable. The idea being, if that same party seeks utility service from one of the municipal utilities it will not be provided until the old bill is paid. To compensate for these uncollectible balances, the allowance for uncollectible accounts includes 100% of accounts 60 days or older and 50% of accounts 30 days old. An allowance for uncollectibles has been calculated for the following enterprise funds: Electric, Water, Wastewater and Sanitation. Amounts are as follows: \$225,144, \$35,832, \$32,593 and \$15,194, respectively.

(4) **Proprietary Revenues Net of Discounts and Allowances**

Enterprise Fund	Gross Charges for Services	(Increase) Decrease in Allowance	Net Charges for Service
Water	\$ 1,744,815	(3,111)	1,741,704
Wastewater	1,464,571	(3,600)	1,460,971
Electric	17,243,326	(16,922)	17,226,404
Sanitation	569,559	(688)	568,871

(5) **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(6) **Emission Credits**

The Electric Fund earns emission credits throughout the year. These credits are expended if emissions are below EPA set requirements. The City has no cost in the credits; therefore, according to available accounting guidance, they have not been recorded in the financial statements. The credits are potentially saleable, however, and should the City's emissions be below acceptable levels, these credits would offset otherwise imposed costs. Emission credit activity and value of the unused credits for the year ended June 30, 2010 is as follows:

Credit Type	Number of Credits					Value	
	7/1/2009	Earned	Used/ Transferred	Bought/Sold	6/30/2010	Each	Total
SO2 (1 Ton)	10,383	50	-347	-1,000	9,086	\$ 15	\$ 136,290
SO2 (.5 Ton)	0	1,764	0	0	1,764	9	15,876
Nox(Annual)	115	140	-284	282	253	280	70,840
Nox(Seasonal)	63	63	-139	180	167	40	6,680
Total	10,561	2,017	-770	-538	11,270	\$	\$ 229,686

(7) **Capital Assets**

Capital assets activity for the year ended June 30, 2010 was as follows:

<b>Primary Government:</b>	Balance			Balance
	Beginning of			End of
	Year	Increases	Decreases	Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 5,443,789	6,800	-	5,450,589
Construction in progress:				
Roof Replacement - 3 buildings	-	8,176	-	8,176
W 3rd & Washington Traffic Signals	23,198	114,422	-	137,620
Airport Dump Truck	6,787	115,183	121,970	-
Interoperability	-	35,974	-	35,974
North Main St. Replacement	-	57,422	-	57,422
Total capital assets not being depreciated	5,473,774	337,977	121,970	5,689,781
Capital assets being depreciated:				
Vehicles	675,969	147,628	37,137	786,460
Buildings and improvements	23,851,135	69,650	-	23,920,785
Machinery and equipment	5,735,561	41,914	102,752	5,674,723
Infrastructure	18,478,920	47,531	-	18,526,451
Total capital assets being depreciated	48,741,585	306,723	139,889	48,908,419
Less accumulated depreciation for:				
Vehicles	302,455	95,644	37,137	360,962
Buildings and improvements	4,427,350	603,594	-	5,030,944
Machinery and equipment	5,056,654	127,458	102,752	5,081,360
Infrastructure	5,708,163	506,297	-	6,214,460
Total accumulated depreciation	15,494,622	1,332,993	139,889	16,687,726
Total capital assets being depreciated net	33,246,963	(1,026,270)	-	32,220,693
<b>Governmental activities capital assets, net</b>	<b>\$ 38,720,737</b>	<b>(688,293)</b>	<b>121,970</b>	<b>37,910,474</b>

(7) *Capital assets (continued from previous page)*

**Business type activities:**

**Water Fund:**

Capital assets not being depreciated:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Land	\$ 118,360	-	-	118,360
Construction in progress:				
Water System Analysis	22,754	42,391	-	65,145
Central Drive Loop	5,322	-	-	5,322
N. Main St. Water Main Replacement	-	21,222	-	21,222
Total capital assets not being depreciated	146,436	63,613	-	210,049

Capital assets being depreciated:

Buildings and improvements	9,618,100	9,331	-	9,627,431
Machinery and equipment	707,343	80,736	236	787,843
Furniture and fixtures	1,079	-	-	1,079
Vehicles	96,084	-	2,041	94,043
Infrastructure	4,789,380	59,402	-	4,848,782
Total capital assets being depreciated	15,211,986	149,469	2,277	15,359,178

Less accumulated depreciation for:

Buildings and improvements	5,200,391	259,807	-	5,460,198
Machinery and equipment	252,846	92,887	236	345,497
Furniture and fixtures	1,079	-	-	1,079
Vehicles	42,485	16,225	1,703	57,007
Infrastructure	2,013,604	187,229	-	2,200,833
Total accumulated depreciation	7,510,405	556,148	1,939	8,064,614

Total capital assets being depreciated net

	7,701,581	(406,679)	338	7,294,564
<b>Water - capital assets, net</b>	<b>\$ 7,848,017</b>	<b>(343,066)</b>	<b>338</b>	<b>7,504,613</b>

(7) *Capital assets (continued from previous page)*

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Wastewater Fund:</b>				
Capital assets not being depreciated:				
Land	\$ 907,049	-	-	907,049
Construction in Progress:				
North Main Sewer Replacement	-	3,799	-	3,799
IDNR Bypass Mandate Improvements	-	103,241	-	103,241
Total capital assets not being depreciated	907,049	107,040	-	1,014,089
Capital assets being depreciated:				
Buildings and improvements	16,671,232	-	-	16,671,232
Machinery and equipment	633,859	6,951	8,872	631,938
Furniture and fixtures	4,154	-	-	4,154
Vehicles	297,372	-	-	297,372
Infrastructure	7,724,511	-	-	7,724,511
Total capital assets being depreciated	25,331,128	6,951	8,872	25,329,207
Less accumulated depreciation for:				
Buildings and improvements	11,144,453	435,005	-	11,579,458
Machinery and equipment	406,146	37,915	8,872	435,189
Furniture and fixtures	4,154	-	-	4,154
Vehicles	85,896	43,254	-	129,150
Infrastructure	3,105,839	308,416	-	3,414,255
Total accumulated depreciation	14,746,488	824,590	8,872	15,562,206
Total capital assets being depreciated net	10,584,640	(817,639)	-	9,767,001
<b>Wastewater - capital assets, net</b>	<b>\$ 11,491,689</b>	<b>(710,599)</b>	<b>-</b>	<b>10,781,090</b>

(7) *Capital assets (continued from previous page)*

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Electric Fund:</b>				
Capital assets not being depreciated:				
Land	\$ 550,724	-	-	550,724
Construction in progress:				
Bucket Elevator Repair	128,484	235,860	364,344	-
Cable Replacement	19,681	4,944	-	24,625
Walter Scott-4 Projects	7,300	16,233	15,988	7,545
Diesel Plant Stack Ext	-	10,000	-	10,000
Ins. Settings-Feeder Breakers	-	11,370	-	11,370
Total capital assets not being depreciated	706,189	278,407	380,332	604,264
Capital assets being depreciated:				
Buildings and improvements	36,556,687	39,151	-	36,595,838
Machinery and equipment	26,414,898	1,819,172	81,867	28,152,203
Furniture and fixtures	21,037	-	4,049	16,988
Vehicles	416,534	-	-	416,534
Total capital assets being depreciated	63,409,156	1,858,323	85,916	65,181,563
Less accumulated depreciation for:				
Buildings and improvements	10,808,402	713,649	485	11,521,566
Machinery and equipment	8,683,926	837,851	36,055	9,485,722
Furniture and fixtures	21,037	-	4,049	16,988
Vehicles	339,532	21,011	-	360,543
Total accumulated depreciation	19,852,897	1,572,511	40,589	21,384,819
Total capital assets being depreciated net	43,556,259	285,812	45,327	43,796,744
<b>Electric-capital assets, net</b>	<b>\$ 44,262,448</b>	<b>564,219</b>	<b>425,659</b>	<b>44,401,008</b>

(7) **Capital assets (continued from previous page)**

**Combining Schedule**

**Business type activities:**

Capital assets not being depreciated:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Land	\$ 1,576,133	-	-	1,576,133
Construction in progress	183,541	449,060	380,332	252,269
Total capital assets not being depreciated	1,759,674	449,060	380,332	1,828,402

Capital assets being depreciated:

Total capital assets being depreciated	103,952,270	2,014,743	97,065	105,869,948
Total accumulated depreciation	42,109,790	2,953,249	51,400	45,011,639
Total capital assets being depreciated (net)	61,842,480	(938,506)	45,665	60,858,309

<b>Business type activities capital assets, net</b>	<b>\$ 63,602,154</b>	<b>(489,446)</b>	<b>425,997</b>	<b>62,686,711</b>
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Depreciation was charged to functions of the primary government as follows:

Governmental activities:

Public works	\$ 646,587
Public safety	109,334
Culture and recreation	356,635
General government	220,437
Total depreciation expense - governmental activities	1,332,993

Business type activities:

Water	\$ 556,148
Wastewater	824,590
Electric	1,572,511
Total depreciation expense - business type activities	\$ 2,953,249

(8) **Long-Term Liabilities**

The City currently has long-term debt obligations in the form of general obligation bonds and revenue bonds. The City does not have any special assessment debt. The following is a summary of changes in long-term liabilities of the City of Pella for the year ended June 30, 2010:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Amounts Due Within One Year	Amounts Due in More than One Year
<b>Governmental activities:</b>						
General obligation bonds/notes	\$ 6,840,000	2,115,000	3,445,000	5,510,000	785,000	4,725,000
Compensated absences	381,115	223,715	191,114	413,716	-	413,716
Net OPEB liability	10,546	10,790	1,164	20,172	-	20,172
<b>Total governmental activities</b>	<b>\$ 7,231,661</b>	<b>2,349,505</b>	<b>3,637,278</b>	<b>5,943,888</b>	<b>785,000</b>	<b>5,158,888</b>
<b>Business type activities:</b>						
Revenue bonds/notes	\$ 21,749,000	2,825,000	6,486,000	18,088,000	1,730,000	16,358,000
Compensated absences	424,376	213,114	185,934	451,556	177,283	274,273
Net OPEB liability	12,495	13,365	876	24,984	-	24,984
Total	22,185,871	3,051,479	6,672,810	18,564,540	1,907,283	16,657,257
Unamortized discount	(100,438)	(12,205)	45,323	(67,320)	-	(67,320)
<b>Total business type activities</b>	<b>\$ 22,085,433</b>	<b>3,039,274</b>	<b>6,718,133</b>	<b>18,497,220</b>	<b>1,907,283</b>	<b>16,589,937</b>



**(8) Long-Term Liabilities (continued from previous page)**

General Obligation Bonds

Four issues of unmatured general obligation bonds/notes totaling \$5,510,000 are outstanding at June 30, 2010. General obligation bonds/notes bear interest rates ranging from 2.50% to 4.10% per annum and mature in varying annual amounts, ranging from \$85,000 to \$380,000, with final maturities due in the year ending June 30, 2020.

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and proprietary activities. These bonds therefore are reported in the proprietary funds if they are expected to be repaid from proprietary revenues. General obligation bonds are direct obligations and pledge the full faith and credit of the City.

Details of general obligation bonds/notes payable at June 30, 2010 are as follows:

Purpose	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2010
General Government G/O	2006	3.65-4.05%	June 1, 2016	\$190,000-270,000	\$ 2,260,000	1,455,000
General Government G/O	2008A	2.60-3.90%	June 1, 2018	95,000-150,000	1,230,000	1,030,000
General Government G/O	2008B	2.50-4.10%	June 1, 2020	85,000-150,000	1,420,000	1,235,000
G/O Refunding Urban renewal	2010A	3.00%	June 1, 2015	325,000-380,000	2,115,000	1,790,000
Total General obligation bonds					<u>\$ 7,025,000</u>	<u>5,510,000</u>

A summary of the annual general obligation bond/note principal and interest requirements to maturity by year is as follows:

Year ending June 30,	General Obligation Debt		
	Principal	Interest	Total
2011	\$ 785,000	190,818	975,818
2012	790,000	165,882	955,882
2013	820,000	140,228	960,228
2014	850,000	113,113	963,113
2015	885,000	84,508	969,508
2016-2020	1,380,000	129,390	1,509,390
Total	<u>\$ 5,510,000</u>	<u>823,939</u>	<u>6,333,939</u>

General obligation bonds may be called on or after the callable date for redemption by the Issuer and paid before maturity by giving 30 days notice of the redemption by registered mail to the registered owner of the bond. The dates at which the various general obligation bonds may first be called are as follows:

Purpose	Date of Issue	Originally Issued	Callable date
General Government G/O	2006	2,260,000	June 1, 2014
General Government G/O	2008A	1,230,000	On & after 6/1/2016
General Government G/O	2008B	1,420,000	On & after 6/1/2016
G/O Debt-Refunding Urban renewal	2010A	2,115,000	Not subject to call

(8) **Long-Term Liabilities (continued from previous page)**

The following is a summary of the transactions for the general obligation bonds of the City for the year ended June 30, 2010:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
General Obligation bonds/notes	\$ 6,840,000	2,115,000	(3,445,000)	\$ 5,510,000

Revenue Notes

Seven issues of unmatured revenue notes totaling \$18,088,000 are outstanding at June 30, 2010. These notes bear interest at rates ranging from 2.00% to 4.30% per annum and mature in varying annual amounts ranging from \$21,000 to \$1,090,000 with the final maturity due in the year ending June 30, 2021.

The resolution providing for the issuance of the revenue notes includes the following provisions:

- a) The notes will only be redeemed from the future net revenues of the enterprise activity and the note holders hold a lien on the future net revenues of the funds.
- b) Sufficient monthly transfers shall be made to a revenue note retirement account for the purpose of making the note principal and interest payments when due.
- c) Separate electric, water and wastewater improvement and replacement accounts have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions, repairs to the system, or principal or interest payments if necessary.
- d) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% for wastewater, and not less than 130% for electric and water, of the amount of principal and interest on the notes falling due in the same year. Net revenues are defined as gross earnings after the deduction of current expenses; including the cost of operating, maintaining, repairing and insuring the system, purchases at wholesale, salaries, wages, and cost of materials and supplies. This excludes; the cost of depreciation, principal and interest payments, capital expenditures, franchise fees and transfers.

During the year ended June 30, 2010, the City was in compliance with the revenue note provisions.

Details of revenue notes payable at June 30, 2010, are as follows:

Purpose	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2010
Wastewater	1999	3.92%	June 1, 2021	\$111,000-197,000	\$ 2,800,000	1,800,000
Wastewater	2000	4.30%	June 1, 2021	62,000-116,000	1,604,000	1,044,000
Wastewater	2000	4.30%	June 1, 2021	21,000-39,000	641,000	349,000
Electric	2004	3.25-3.90%	June 1, 2019	105,000-1,090,000	6,000,000	5,515,000
Electric	2005	3.00-4.00%	June 1, 2019	240,000-710,000	7,000,000	5,365,000
Water refunding	2007	3.60-3.70%	June 1, 2015	260,000-370,000	2,540,000	1,675,000
Electric refunding	2010	2.00-2.10%	June 1, 2014	485,000-600,000	2,825,000	2,340,000
					23,410,000	18,088,000
Unamortized discount					(296,189)	(67,320)
Net revenue bonds					\$ 23,113,811	18,020,680

(8) *Long-Term Liabilities (continued from previous page)*

A summary of annual revenue note principal and interest requirements to maturity are as follows:

Year ended June 30,	Enterprise Funds						Total	
	Water		Wastewater		Electric			
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 320,000	61,310	235,000	113,899	1,175,000	461,116	1,730,000	636,325
2012	340,000	49,790	246,000	105,536	1,215,000	428,646	1,801,000	583,972
2013	350,000	37,380	256,000	96,765	1,280,000	393,636	1,886,000	527,781
2014	370,000	24,605	266,000	87,642	1,325,000	355,136	1,961,000	467,383
2015	295,000	10,915	276,000	78,154	1,500,000	314,496	2,071,000	403,565
2016-2020	-	-	1,562,000	234,596	6,725,000	667,432	8,287,000	902,028
2021	-	-	352,000	12,575	-	-	352,000	12,575
Total	\$ 1,675,000	184,000	3,193,000	729,167	13,220,000	2,620,462	18,088,000	3,533,629

Revenue notes may be called on or after the callable date for redemption by the Issuer and paid before maturity by giving 30 days notice of redemption by registered mail to the registered owner of the bond. The dates at which the various revenue bonds may first be called are as follows:

Purpose	Date of Issue	Originally Issued	Callable date
Wastewater	1999	\$ 2,800,000	Dec. 15, 2009
Wastewater	2000	1,604,000	Dec. 15, 2009
Wastewater	2000	641,000	Dec. 15, 2009
Electric	2004	6,000,000	June 1, 2012
Electric	2005	7,000,000	June 1, 2013
Water refunding	2007	2,540,000	Not subject to call
Electric refunding	2010	2,825,000	Not subject to call

The following is a summary of the transactions for revenue notes, net of unamortized discounts, for the water, sewer, and electric utilities for the year ended June 30, 2010:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Water revenue notes	\$ 2,585,000	-	(910,000)	1,675,000
Unamortized discount	(21,038)	-	5,145	(15,893)
Net water revenue notes	2,563,962	-	(904,855)	1,659,107
Sewer revenue notes	3,419,000	-	(226,000)	3,193,000
Net sewer revenue notes	3,419,000	-	(226,000)	3,193,000
Electric revenue notes	15,745,000	2,825,000	(5,350,000)	13,220,000
Unamortized discount	(79,400)	(12,205)	40,178	(51,427)
Net electric revenue notes	15,665,600	2,812,795	(5,309,822)	13,168,573
Total net revenue notes	\$ 21,648,562	2,812,795	(6,440,677)	18,020,680

Two revenue notes were paid off early. The 2001 water revenue note had a beginning balance of \$600,000 with a scheduled payment of \$110,000. The full \$600,000 was paid. Also the 2001 Electric revenue bond had a beginning balance of \$4,255,000 and a scheduled payment of \$250,000. The full \$4,255,000 was paid.

(8) **Long-Term Liabilities (continued from previous page)**

Long-term Debt Interest Expense - The long-term debt costs and interest, governmental activities, in the Statement of Activities in the amount of \$256,144 is all direct debt costs and interest expense on long-term debt.

Discount and issuance costs are deferred and amortized over the term of the notes using the straight-line method, which approximates the effective interest method. Discounts are presented as a reduction of the face amount of bonds/notes payable whereas issuance costs are recorded as deferred charges. The details of the discounts are listed in the previous schedules. The unamortized issuances costs are listed as an asset on the balance sheet. The issuance costs are amortized over the life of the loan and are included in interest and debt costs. Issuance costs detail is as follows:

	Balance Beginning of Year	Incurred	Amortized	Balance End of Year
<b>Governmental activities:</b>				
G.O. bond	\$ -	8,040	(742)	7,298
<b>Business type activities:</b>				
Sewer SFR Loan	35,828	-	(3,258)	32,570
Water revenue note	35,202	-	(19,164)	16,038
Electric revenue note	107,924	32,480	(28,563)	111,841
Total business type:	178,954	32,480	(50,985)	160,449
Total deferred issuance costs	\$ 178,954	40,520	(51,727)	167,747

(9) **Interfund Transfers**

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources. The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfer to:	Transfer from:	Amount
	Special Revenue:	
General	Employee Benefits	\$ 430,472
	Police Asset Forfeiture	4,567
	Environmental Services	54,747
		<u>489,786</u>
	Special Revenue:	
Debt Service	Local sales tax	311,197
	Pella Business Corridor- TIF	527,052
	Wastewater	160,528
		<u>998,777</u>
Special Revenue:	Special Revenue:	
Road use	Pella Business Corridor - TIF	4,640
	General	100,000
		<u>104,640</u>
Capital Projects	General	171,000
	Electric	3,504
	Water	3,503
	Wastewater	3,503
	Special Revenue:	
	Van Gorp Trust	3,654
	Airport Trust	8,768
	Local sales tax	63,940
	Road use	57,130
	Pella Business Corridor- TIF	28,585
		<u>343,587</u>

(10) **Net Assets Restricted by Enabling Legislation**

The components of Net Restricted Assets listed in Exhibit A are as follows:

Restricted for:	Governmental Activities	Business Type Activities
Debt restricted - Water Bond Reserve	\$ -	254,000
Debt restricted - Wastewater Bond Reserve	-	368,342
Debt restricted - Electric Bond Reserve	-	1,582,500
Debt restricted - Electric Improvement Reserve	-	500,000
Other - deposits	-	115,790
Special purposes:		
TIF - High Point	55	-
TIF - Pella Business Corridor	429,567	-
Road use	480,631	-
Local Option Sales Tax	275,859	-
Pella Clothing Bank	1,330	-
Police Reserve	1,175	-
Community Development	4,830	-
Library Gifts/Memorials	93,627	-
Pella Community Center	2,348	-
Pella Community Center Van Trust	6,375	-
Art Center	20,679	-
Airport	37,967	-
Police Asset Forfeiture	48,370	-
Soccer Complex	2,365	-
Community Service Scholarship Trust	1,100	-
Parks Development	26,227	-
Carnegie-Viersen Trust Earnings - Educational purposes	31,424	-
Carnegie-Viersen-Van Gorp Trust - Library operations and repairs	34,430	-
Van Gorp Trust Earnings - Information Windmill Repairs	13,901	-
Nonexpendable - Permanently restricted donation - Carnegie-Viersen Trust	40,000	-
Nonexpendable - Permanently restriction donation - Van Gorp Trust	100,000	-
Total net restricted assets	<u>\$ 1,652,260</u>	<u>2,820,632</u>

(11) **Retirement Plans**

Iowa Public Employees Retirement System - The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

**(11) Retirement Plans (continued from previous page)**

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008, were \$321,128, \$285,261, and \$259,630, respectively, equal to the required contributions for each year.

Municipal Fire and Police Retirement System of Iowa - The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability, and death benefits which are established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 7155 Lake Drive, Suite 201, West Des Moines, Iowa 50266.

Plan members are required to contribute 9.40% of earnable compensation and the City's contribution rate, based upon an actuarially determined normal contribution rate, cannot be less than 17% of earnable compensation. Contribution requirements are established by state statute. The City's contribution to the Plan for the years ended June 30, 2010, 2009 and 2008 were \$116,631, \$121,364, and \$163,219, respectively, which met the required minimum contribution for each year.

**(12) Other Postemployment Benefits (OPEB)**

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 82 active and no retired members in the plan. General participants (IPERS) must be age 55 or older at retirement. Police participants (MFDRSI) must be age 55 or older with 22 years of service at retirement. Surviving spouse/dependents of retirees are allowed to remain on health coverage at their own expense until age 65.

The medical/prescription drug coverage is provided through a purchased high deductible health insurance plan and a partially self-funded plan where the City funds the difference between the deductibles and out-of-pocket maximums charged to employees and those covered by the purchased plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The City's annual OPEB cost is calculated based on the annual required contribution (ARC) of the City, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the City's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the City's net OPEB obligation:

Annual required contribution	\$ 24,113
Interest on net OPEB obligation	922
Adjustment to annual required contribution	(879)
Annual OPEB cost	<u>24,156</u>
Contributions made	<u>(2,041)</u>
Increase in net OPEB obligation	22,115
Net OPEB obligation beginning of year	<u>23,041</u>
Net OPEB obligation end of year	<u>\$ 45,156</u>

(12) **Other Postemployment Benefits (continued from previous page)**

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

The required contribution is based on projected pay-as-you-go financing. For fiscal year 2010, the City contributed \$2,040 toward the annual required OPEB contribution. It also funded 90% of the established premium toward active members' health coverage. Active members receiving benefits contributed \$87,533, or 10% of the established premium, through their required contribution of \$47 or \$99 per month, depending on whether single or family coverage is elected. There were no retirees covered during fiscal year 2010.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

Year ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 24,155	4.4%	45,156

**Funded Status and Funding Progress** - As of July 1, 2008, the most recent actuarial valuation date for the period July 1, 2008 through June 30, 2010, the actuarial accrued liability was \$199 thousand, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$199 thousand. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$4,259,187 and the ratio of the UAAL to covered payroll was 4.7%. As of June 30, 2010, there were no trust fund assets.

**Actuarial Methods and Assumptions** - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2008 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions includes a 4% discount rate based on the City's funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

Projected claim costs of the medical plan are \$733 per month for retirees less than age 60 and \$894 per month for retirees less than age 65. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**(13) Deferred Compensation Plan**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 for employees and Code Section 401 for the position of City Administrator. The 457 plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights must be held in trust of the exclusive benefit of plan participants and beneficiaries. These funds are invested and held by the ICMA-RA (International City County Management Association Retirement Corporation) and not by the City. Therefore, they are not listed as a liability of the City.

It is the opinion of the City's legal counsel that the City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor.

**(14) Related Party Transactions**

The City had business transactions between the City and Council members totaling \$25,923 during the year ended June 30, 2010. There were no related payables at June 30, 2010.

**(15) Major Customer**

During the year ended June 30, 2010, the City of Pella Municipal Electric Utility had two major customers. They purchased \$3,496,043 and \$1,926,311 of electric power. These charges represent 22.60% and 12.45%, respectively, of total charges for electric services.

**(16) Risk Management**

Insurance - The City of Pella carries commercial insurance purchased from issuers for coverage associated with risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Partially Self-Insured Health Care Plan - The City of Pella has purchased a high deductible health insurance plan from an outside provider. The City funds the difference between the deductibles and out-of-pocket maximums charged to employees and those covered by the purchased plan.

The City escrows funds from each month to be used to pay medical claims incurred. The maximum exposure to the city for claims incurred is limited by the spread between the employees' out-of-pocket maximums and those of the policy carried by the City. For 2009, the risk spread for employees with single coverage was \$3,000 per employee and for those with family coverage was \$6,000 per employee. Total risk in 2009 was \$453,000. In 2010, the risk spread was \$2,750 for employees with single coverage and \$5,500 for employees with family coverage. Total risk in 2010 was \$409,750 if every employee hit their maximum out-of-pocket amounts.

At June 30, 2010, the plan held \$558,970 cash and pooled investments. The actuarial estimate of the reserves necessary for claims incurred but not yet paid was \$24,000, which is listed as the accounts payable balance of the Internal Service Fund.



(17) **Commitments**

The City has entered into several contracts totaling \$2,285,679. At June 30, 2010, \$872,154 had been paid towards these contracts. The remaining amounts will be paid as work on the projects progresses.

Contracts	Contract Amount	Amount Paid	% Complete
Oskaloosa Overlay Norris Asphalt Paving Co.	\$ 280,163	-	0%
Water & Wastewater Cost of Service Analysis, Phase II Howard R. Green Company	55,000	23,091	42%
Televise Sanitary Sewer Visu-Sewer	307,047	-	0%
North Main Reconstruction Garden & Associates	231,500	75,507	33%
Aquatic Center Central Electric	188,060	178,657	95%
Northeast Sanitary Sewer Improvement Howard R Green Company	343,200	81,360	24%
West 3rd Street Signal Improvements Votmer, Inc.	111,900	103,257	92%
West 3rd & Washington St. Traffic Signal Engineering Snyder & Assoc.	24,966	24,684	99%
Electric Cost of Service Study Stanley Consultants	25,650	3,079	12%
Marion Street Sewer Repair Blommers Construction	49,718	-	0%
Safety Training Iowa Association of Municipal Utilities	14,290	7,145	50%
Pella to I-80 Corridor Feasibility Study CH2MHILL	400,049	241,929	60%
Replacement Airport Snyder & Assoc.	211,136	106,601	50%
Oskaloosa/Main St. Resurfacing Engineering Snyder & Assoc.	43,000	26,844	62%
	<u>\$ 2,285,679</u>	<u>872,154</u>	

(17) *Commitments (continued from previous page)*

Other Contracts:		Expires:
Coal Supply Agreement		
Interstate Power & Light	Base price	12/31/2012
Ash Disposal Agreement		
Interstate Power & Light	Base price	12/31/2012
Solid Waste Collection		
Kal Services, Inc.	per tote	7/31/2012

### **Required Supplementary Information**

**City of Pella, Iowa**  
**Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances**  
**Budget and Actual (Modified Accrual Basis)**  
**Governmental and Proprietary Funds**  
**Required Supplementary Information**  
**Year ended June 30, 2010**

	Budgeted Amounts					
	Governmental Funds-Actual	Proprietary Funds-Actual	Total Actual	Original	Final	Final to Actual Variance
Revenues:						
Property taxes	\$ 3,844,577	-	3,844,577	3,847,102	3,847,102	(2,525)
Tax increment financing	944,634	-	944,634	873,863	873,863	70,771
Other city taxes	1,187,500	-	1,187,500	1,369,106	1,369,106	(181,606)
Licenses and permits	41,960	-	41,960	28,700	28,700	13,260
Use of money and property	65,787	190,970	256,757	507,837	409,049	(152,292)
Intergovernmental	2,064,034	-	2,064,034	7,239,261	7,462,443	(5,398,409)
Charges for services	460,177	20,997,950	21,458,127	20,958,985	20,851,724	606,403
Special Assessments	-	39,018	39,018	-	-	39,018
Miscellaneous	125,394	137,559	262,953	538,450	208,889	54,064
Total revenues	8,734,063	21,365,497	30,099,560	35,363,304	35,050,876	(4,951,316)
Expenditures:						
Public safety	1,551,122	-	1,551,122	1,615,153	1,625,247	74,125
Public works	1,122,410	-	1,122,410	1,081,341	1,171,401	48,991
Culture and recreation	1,687,573	-	1,687,573	1,874,031	1,919,855	232,282
Community and economic development	479,241	-	479,241	627,211	627,445	148,204
General government	468,360	-	468,360	505,069	471,357	2,997
Debt service	3,719,956	-	3,719,956	1,365,271	3,685,139	(34,817)
Capital projects	631,463	-	631,463	6,303,062	6,546,740	5,915,277
Business type activities	-	26,627,518	26,627,518	21,874,291	28,114,150	1,486,632
Total expenditures	9,660,125	26,627,518	36,287,643	35,245,429	44,161,334	7,873,691
Excess (deficiency) of revenues over (under) expenditures	(926,062)	(5,262,021)	(6,188,083)	117,875	(9,110,458)	2,922,375
Other financing sources (uses):						
Operating transfers in	1,936,760	-	1,936,760	7,888,559	8,576,528	6,639,768
Operating transfers out	(1,710,975)	(225,785)	(1,936,760)	(7,888,559)	(8,576,528)	(6,639,768)
Capital Contributions-assets	-	15,562	15,562	-	-	(15,562)
Debt Proceeds	2,115,000	2,825,000	4,940,000	-	5,010,490	70,490
Premium on General obligation debt	71,056	-	71,056	-	-	(71,056)
Proceeds from sale of assets	16,434	(33,289)	(16,855)	14,000	14,000	30,855
Total other financing sources	2,428,275	2,581,488	5,009,763	14,000	5,024,490	14,727
Excess (deficiency) of revenues and other financing sources over (under) expenditures	1,502,213	(2,680,533)	(1,178,320)	131,875	(4,085,968)	2,907,648
Balance beginning of year	2,498,904	14,334,283	16,833,187	12,304,842	15,869,111	964,076
Balance end of year	\$ 4,001,117	11,653,750	15,654,867	12,436,717	11,783,143	3,871,724

See the following page for GAAP to modified accrual conversion necessary for this comparison.

See accompanying independent auditor's report.

**City of Pella, Iowa**  
**Budgetary Comparison Schedule**  
**Proprietary-GAAP to Modified Accrual Reconciliation**  
**Required Supplementary Information**  
**Year ended June 30, 2010**

	Proprietary Funds		
	GAAP	Accrual Adjustments	Modified Accrual Basis
Total revenues	\$ 21,365,497	-	21,365,497
Expenses:			
Business type activities	21,080,369	5,547,149	26,627,518
Excess (deficiency) of revenues under expenses	285,128	(5,547,149)	(5,262,021)
Other financing sources (uses):			
Operating transfers to other funds	(225,785)	-	(225,785)
Sale of fixed assets	(33,289)	-	(33,289)
Debt proceeds	-	2,825,000	2,825,000
Other revenues	15,562	-	15,562
Total other financing sources (uses)	(243,512)	2,825,000	2,581,488
Increase in net assets	41,616	(2,722,149)	(2,680,533)
Beginning net assets	55,490,259	(41,155,976)	14,334,283
Ending net assets	\$ 55,531,875	(43,878,125)	11,653,750

The City budgets on the modified accrual basis. It includes proprietary expenditures outlays for capital assets and debt principal paid with adjustments to remove the effects of depreciation and bond issuance and discount costs recognized in GAAP accounting. The adjustments account for the \$2,722,149 adjustment to proprietary expenditures.

See accompanying independent auditor's report.

The budgetary comparison is presented as Required Supplementary Information in accordance with *Government Accounting Standards* Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the modified accrual basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment decreased budgeted revenues by \$312,428, increased budgeted disbursements by \$8,915,905 and increased other financing sources by \$5,010,490. This budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements in the debt service function exceeded the amounts budgeted.

City of Pella, Iowa  
Schedule of Funding Progress for the Retiree Health Plan  
Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	July 1, 2008	\$ -	\$ 199,000	\$ 199,000	0.0%	\$ 4,866,000	4.1%
2010	July 1, 2008	\$ -	\$ 199,000	\$ 199,000	0.0%	\$ 4,259,187	4.7%

See Note 12 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

**City of Pella, Iowa**



## **Other Supplementary Information**

## Schedule 1

**City of Pella, Iowa**  
**Combining Balance Sheet**  
**Non-Major Governmental Funds**  
**June 30, 2010**

Special Revenue Funds								
	Highpoint Tax Increment Financing	Road Use	Local Option Tax	Employee Benefits	Pella Clothing Bank	Police Reserve	Community Development Trust	Carnegie Viersen Library Gift/Memorial
<b>Assets</b>								
Cash and pooled investments	\$ 55	545,565	157,576	-	1,329	1,173	4,824	94,039
Receivable:								
Property tax:								
Delinquent	-	-	-	4,338	-	-	-	-
Succeeding year	-	-	-	499,301	-	-	-	-
Local option sales tax	-	-	118,283	-	-	-	-	-
Accounts receivable, miscellaneous		4,092						
Accrued interest	-	-	-	-	1	2	6	88
<b>Total assets</b>	<b>\$ 55</b>	<b>549,657</b>	<b>275,859</b>	<b>503,639</b>	<b>1,330</b>	<b>1,175</b>	<b>4,830</b>	<b>94,127</b>
<b>Liabilities and Fund Balance</b>								
Liabilities:								
Excess of warrants over bank balance	\$ -	-	-	4,338	-	-	-	-
Accounts payable	-	46,219	-	-	-	-	-	500
Salaries and benefits payable	-	22,807	-	-	-	-	-	-
Deferred revenue:								
Succeeding year property tax	-	-	-	499,301	-	-	-	-
Total liabilities	-	69,026	-	503,639	-	-	-	500
Fund balances:								
Reserved:								
Permanent trust	-	-	-	-	-	-	-	-
Other special purposes	55	480,631	275,859	-	1,330	1,175	4,830	93,627
Total fund balances	55	480,631	275,859	-	1,330	1,175	4,830	93,627
<b>Total liabilities and fund balance</b>	<b>\$ 55</b>	<b>549,657</b>	<b>275,859</b>	<b>503,639</b>	<b>1,330</b>	<b>1,175</b>	<b>4,830</b>	<b>94,127</b>

See accompanying independent auditor's report.

Schedule 1

Special Revenue Funds									Permanent Funds		
Pella Community Center Trust	Pella Community Center Van Trust	Art Center Trust	Airport Trust	Police Asset Forfeiture	Soccer Complex	Community Service Scholarship Trust	Parks Development	Carnegie-Viersen- Van Gorp Trust Fund	Carnegie- Viersen Trust Fund	Van Gorp Trust	Total Non-major Governmental Funds
2,347	6,428	20,872	37,903	48,367	2,365	1,100	27,354	34,378	71,424	113,719	1,170,818
-	-	-	-	-	-	-	-	-	-	-	4,338
-	-	-	-	-	-	-	-	-	-	-	499,301
-	-	-	-	-	-	-	-	-	-	-	118,283
1	-	-	64	3	-	-	25	52	-	182	424
2,348	6,428	20,872	37,967	48,370	2,365	1,100	27,379	34,430	71,424	113,901	1,797,256
-	-	-	-	-	-	-	-	-	-	-	4,338
-	53	193	-	-	-	-	1,152	-	-	-	48,117
-	-	-	-	-	-	-	-	-	-	-	22,807
-	-	-	-	-	-	-	-	-	-	-	499,301
-	53	193	-	-	-	-	1,152	-	-	-	574,563
-	-	-	-	-	-	-	-	-	40,000	100,000	140,000
2,348	6,375	20,679	37,967	48,370	2,365	1,100	26,227	34,430	31,424	13,901	1,082,693
2,348	6,375	20,679	37,967	48,370	2,365	1,100	26,227	34,430	71,424	113,901	1,222,693
2,348	6,428	20,872	37,967	48,370	2,365	1,100	27,379	34,430	71,424	113,901	1,797,256

## Schedule 2

**City of Pella, Iowa**  
**Combining Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Non-Major Other Governmental Funds**  
**Year ended June 30, 2010**

	Special Revenue Funds								
	Highpoint Tax Increment Financing	Road Use	Local Option Tax	Employee Benefits	Pella Clothing Bank	Police Reserve	Community Development Trust	Carnegie Viersen Library Gift/ Memorial	Pella Community Center
Revenues:									
Property tax	\$ -	-	-	427,061	-	-	-	-	-
Local option tax	-	-	806,475	-	-	-	-	-	-
Other City Taxes	-	-	-	2,290	-	-	-	-	-
Intergovernmental	-	920,402	238,225	-	-	-	-	14,364	-
Use of money and property	35	-	584	1,121	6	9	35	510	8
Charges for service	-	2,262	-	-	-	-	-	-	-
Miscellaneous	-	-	-	-	2,465	-	-	11,956	600
Total revenues	35	922,664	1,045,284	430,472	2,471	9	35	26,830	608
Expenditures:									
Operating:									
Public Safety	-	-	-	-	-	-	-	-	-
Public works	-	808,608	-	-	-	-	-	-	-
Culture and recreation	-	-	11,488	-	2,639	-	-	17,524	640
Total expenditures	-	808,608	11,488	-	2,639	-	-	17,524	640
Excess (deficiency) of revenues over (under) expenditures	35	114,056	1,033,796	430,472	(168)	9	35	9,306	(32)
Other financing sources (uses):									
Operating transfer in	-	104,640	-	-	-	-	-	-	-
Operating transfer (out)	-	(57,130)	(375,137)	(430,472)	-	-	-	-	-
Proceeds from sale of assets	-	2,148	-	-	-	-	-	-	-
Total other financing sources (uses)	-	49,658	(375,137)	(430,472)	-	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures and other financing uses	35	163,714	658,659	-	(168)	9	35	9,306	(32)
Fund balances beginning of year	20	316,917	(382,800)	-	1,498	1,166	4,795	84,321	2,380
Fund balances end of year	\$ 55	480,631	275,859	-	1,330	1,175	4,830	93,627	2,348

See accompanying independent auditor's report.

## Schedule 2

Special Revenue Funds								Permanent Funds		
Pella Community Center Van Trust	Art Center Trust	Airport Trust	Police Asset Forfeiture	Soccer Complex	Community Service Scholarship Trust	Parks Develop- ment	Carnegie-Viersen- Van Gorp Trust Fund	Carnegie- Viersen Trust Fund	Van Gorp Trust	Total Non-major Governmental Funds
-	-	-	-	-	-	-	-	-	-	427,061
-	-	-	-	-	-	-	-	-	-	806,475
-	-	-	-	-	-	-	-	-	-	2,290
-	-	-	18,000	-	-	-	-	-	-	1,190,991
9	31	343	87	8	-	148	274	3,382	953	7,543
-	-	-	-	-	-	-	-	-	-	2,262
-	5,945	-	-	-	1,100	20,593	-	-	-	42,659
9	5,976	343	18,087	8	1,100	20,741	274	3,382	953	2,479,281
-	-	-	4,714	-	-	-	-	-	-	4,714
-	-	-	-	-	-	-	-	-	-	808,608
861	9,631	-	-	9,460	-	15,459	-	-	-	67,702
861	9,631	-	4,714	9,460	-	15,459	-	-	-	881,024
(852)	(3,655)	343	13,373	(9,452)	1,100	5,282	274	3,382	953	1,598,257
-	-	-	-	-	-	-	-	-	-	104,640
-	-	(8,738)	(4,567)	-	-	-	-	-	(3,654)	(879,698)
-	-	-	-	-	-	-	-	-	-	2,148
-	-	(8,738)	(4,567)	-	-	-	-	-	(3,654)	(772,910)
(852)	(3,655)	(8,395)	8,806	(9,452)	1,100	5,282	274	3,382	(2,701)	825,347
7,227	24,334	46,362	39,564	11,817	-	20,945	34,156	68,042	116,602	397,346
6,375	20,679	37,967	48,370	2,365	1,100	26,227	34,430	71,424	113,901	1,222,693

**City of Pella, Iowa**  
**Schedule of Revenues by Sources and Expenditures by Function**  
**All Governmental Funds**  
**For the Last Nine Years**

	Modified Accrual Basis								
	2010	2009	2008	2007	2006	2005	2004	2003	2002
Revenues:									
Property tax	\$ 3,844,577	3,420,082	2,863,107	2,792,009	2,778,762	2,722,753	2,837,958	2,794,278	2,605,151
Tax increment financing revenue	944,634	1,616,632	2,022,553	1,867,289	1,675,567	1,672,240	1,444,657	1,069,118	732,375
Local option sales tax	806,475	1,180,851	875,711	984,332	1,000,702	813,900	851,409	908,915	424,448
Other city tax	381,025	400,928	516,806	499,706	394,645	366,366	367,213	384,797	323,714
Licenses and permits	41,960	29,859	18,266	21,369	27,320	30,033	20,427	14,558	14,351
Use of money and property	65,787	117,224	158,941	177,215	178,192	151,017	120,419	99,101	170,331
Intergovernmental	2,064,034	1,709,321	1,622,953	1,519,012	1,438,435	1,686,186	1,687,032	2,009,076	1,974,034
Special assessments	-	-	-	44,124	-	-	-	-	2,588
Charges for service	460,177	492,108	411,384	340,054	377,208	353,694	251,492	310,852	307,930
Miscellaneous	125,394	112,268	170,369	406,459	277,790	183,838	516,042	289,876	752,519
Total	<u>\$ 8,734,063</u>	<u>9,079,273</u>	<u>8,660,090</u>	<u>8,651,569</u>	<u>8,148,621</u>	<u>7,980,027</u>	<u>8,096,649</u>	<u>7,880,571</u>	<u>7,307,441</u>
Expenditures:									
Operating:									
Public safety	\$ 1,551,122	1,538,082	1,568,486	1,411,218	1,401,296	1,338,999	1,148,456	1,098,202	1,088,566
Public works	1,122,410	1,101,806	1,037,294	1,010,058	911,054	951,204	918,075	1,524,769	1,659,514
Culture and recreation	1,687,573	1,815,563	1,645,610	1,585,354	1,532,929	1,516,237	1,491,734	1,412,690	1,973,083
Community and economic development	479,241	504,894	463,659	541,534	506,050	601,903	262,752	86,560	237,300
General government	468,360	450,969	344,179	339,003	336,511	338,399	666,256	718,703	940,854
Debt service	3,719,956	1,372,483	5,853,291	1,706,474	4,092,597	1,795,402	1,743,005	3,881,721	1,400,224
Capital projects	631,463	1,255,727	3,142,731	2,217,218	1,446,816	668,144	3,205,314	367,781	894,029
Total	<u>\$ 9,660,125</u>	<u>8,039,524</u>	<u>14,055,250</u>	<u>8,810,859</u>	<u>10,227,253</u>	<u>7,210,288</u>	<u>9,435,592</u>	<u>9,090,426</u>	<u>8,193,570</u>

See accompanying independent auditor's report.



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**Van Maanen, Sietstra & Meyer, PC**

CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed In Accordance with  
Government Auditing Standards**

To the Honorable Mayor and Members of the City Council  
City of Pella, Iowa:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Pella, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated January 7, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Pella's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Pella's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Pella's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Pella's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in the accompanying Schedule of Findings as item (A) to be a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Pella's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Pella's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Pella's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Pella and other parties to whom the City of Pella may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Pella during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Van Maanen, Sietstra & Meyer, PC*

Van Maanen, Sietstra & Meyer, PC  
Certified Public Accountants

January 7, 2011



**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCY:**

- (A) Segregation of Duties – One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Currently the same employees that handle cash and deposits also have software access to the receipts module.

Recommendation – We recommend that those employees who handle cash receipts do not also have access to that area of the accounting records.

Response – We will work to maintain the best possible control with the personnel available.

Conclusion – Response accepted.

**Other Findings Related to Required Statutory Reporting:**

- (1) Certified Budget - Expenditures for the year ended June 30, 2010, exceeded the budget in the debt service function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.20 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future.

Conclusion - Response accepted.

- (2) Questionable Disbursements - No disbursements were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- (3) Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

- (4) Business Transactions - Business transactions between the City and City officials or employees for the year ended June 30, 2010 are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Bruce Schiebout, Council Member	Collector Well Improvements	\$ 25,725
Stockholder of Eagle Electric, Inc.	Electrical work	\$ 198

There were no related payables at June 30, 2010.

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Council Member do not appear to be a conflict of interest since they were entered through competitive bidding.

Recommendation – Legal council should be consulted.

Response – We will consult legal council to resolve.

Conclusion – Response accepted.

- (5) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- (6) Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (7) Council Minutes - Published minutes did not include the purpose of the expenditure, total disbursements by fund, and a summary of receipts.

Recommendation - The purpose of expenditures should be included in the published minutes.

Response - When expenditures are approved by Council, a description of the expenditure is provided that ranges in length from seven to fifteen words. The system does not have the capability to print a report that summarizes our description into one word for publication purposes. We will investigate our ability to include the other information.

Conclusion - Response accepted.

- (8) Revenue Bonds - The City has complied with the provisions of the revenue bond indentures.